



GOVERNMENT
PRICES
OVERSIGHT
COMMISSION

Metro Fares Investigation

Background Paper

October 1996

Summary

The Government Prices Oversight Commission has been required to investigate the pricing policies of the Metropolitan Transport Trust (MTT or Metro) for its bus services in Hobart, Launceston and Burnie. The Commission is required to produce a Final Report, including recommendations for maximum fares to be charged over the next three years, by 28 February 1997.

The Commission is seeking community input to the Investigation through submissions and meetings.

This Background Paper is being released to assist the community to prepare initial submissions to the Investigation. A Draft Report, which will include the Commission's draft proposals, will be released in December and the Commission will seek comments on its research and proposals before preparing its Final Report and recommendations. The Commission also proposes to meet with interested parties during the course of the Investigation to discuss particular matters.

The MTT now operates in a quasi-commercial environment.

The *Government Business Enterprises Act 1995* requires the MTT to operate with commercial objectives, subject to the expectations of Government set out in the Ministerial Charter. The Act recognises that many Government Business Enterprises (GBEs) carry out activities which would not be undertaken by a commercial business in the private sector. The Act provides for the identification and specific funding of certain non-commercial services which the Government may require a GBE to undertake.

The Government Prices Oversight Commission has been established to examine the pricing policies of those GBEs that are monopoly providers of services. Although urban buses compete with other modes of private transport, MTT services in

Hobart, Launceston and Burnie have been declared to be a monopoly service for the purposes of the Government Prices Oversight Act.

Hobart travel is dominated by private motor vehicle usage, with 8 per cent of trips undertaken by public transport. Metro patronage decreased by 2.9 per cent between 1990-91 and 1994-95, with the greatest proportional reduction (4.7 per cent) in Hobart. This has been despite a substantial increase in service levels (a 20 per cent increase in bus kilometres travelled in Hobart).

Metro offers three classes of fares — full adult, adult concession and student/child.

Metro has been losing more full fare adult patronage than it has made up in concession and student/child passengers. Only 27 per cent of Metro patrons now pay a full adult fare.

The Commission is interested in the community's views on why full fare patronage of Metro services is falling.

Is this because of price, convenience or comfort?

Are people travelling less, or are they using other forms of transport?

What is the primary purpose of individual travel on Metro — work or social?

Operating revenues of the MTT include income from fares and charters (\$7 950 000 in 1994-95) and make-up revenue from Government funding of student transport (\$6 604 000 in 1994-95). In addition, Metro receives Government funding of its operating deficit. The Government provided a total of \$19.3 million in funds during 1994-95, or 62 per cent of Metro total revenues.

Less than 30 per cent of Metro revenue was provided from "fare-box" receipts in 1994-95. A consistent downward trend in fare and charter revenue (1992-92 to 1993-94) was arrested in January 1995 by an increase in bus fares.

Direct operating expenses represent 74 per cent of operating costs of the MTT. The primary components of operating costs are payroll and wages on-costs (59 per cent), ownership costs (20 per cent) and fuel and vehicle maintenance (15 per cent).

Aggregate operating costs of the MTT are at the lower end of the range of other Australian publicly-owned urban bus transport operators. Labour productivity ranges from low to above average compared with other public operators, depending on the measure.

The vehicle ownership costs of the MTT are comparatively high, mainly as a result of a lower average age of bus fleet than other operators. The value of the bus fleet was written down by 16 per cent in 1994-95 when the fleet was revalued to market value. The debt level of the MTT (and associated interest costs) is comparatively low, with a debt:equity ratio of 21.1 per cent compared to ratios in excess of 100 per cent for the other publicly-owned operations that have been examined.

The MTT recorded an operating deficit of \$13.4 million in 1994-95. The MTT has presented an allocation of this deficit as:

	Hobart	Launceston	Burnie
Operating Deficit	\$11 121 00	\$1 895 00	\$456 000
Deficit per trip	\$1.27	\$0.83	\$0.48
Deficit per kilometre	\$1.26	\$1.11	\$0.63

The Commission will examine cost and revenue elements and allocations to service sectors as part of its Investigation.

The objectives for setting of the level and structure of fares include promoting economic efficiency, equity and simplicity.

Various structures of fares may be adopted according to the weight placed on each of these

objectives. Fare structures include distance-based, zonal, time of use and flat fares.

The Metro adult fare structure is essentially distance-based and is broadly comparable with the average of other operators for short distances, but is at the lower end of the range for longer trips.

The Commission invites comment on the implications for customers if Metro fares were structured to be more closely related to distance travelled.

Concession fares are available to pensioners and seniors at the same set fare as the full adult fare for up to two sections. The concession fare is the same, irrespective of the distance travelled.

Similar concessions are offered in New South Wales as a 50 per cent reduction on the full adult fare or a zonal excursion ticket offering unlimited travel within the zone on the day of issue.

The concession fares for student/child are available on the same flat fare basis as the adult concession.

The Commission invites comment on the merits of the current flat fare structure for concessions and of alternatives, such as a percentage discount on the full adult fare.

Metro also offers a discount for certain off-peak fares: a concession for a daily off-peak excursion fare and a concession for a 10 day off-peak multi-trip ticket.

Should the Metro place a greater emphasis on off-peak discounts to encourage travellers to make greater use of off-peak services?

Most if not all of the services currently provided by the MTT are not commercially viable without supplementary funding by Government.

Governments subsidise urban transport to deliver economic, environmental and social policy objectives. Only student bus services are currently

specifically funded, but the *Government Business Enterprise Act 1995* provides for specific identification and funding of those non-commercial activities which the Government determines to be Community Service Obligations. These subsidies may be targeted to particular groups (pensioners, welfare recipients and students) and generally to promote use of public transport through lower fares.

The Terms of Reference require the Commission to examine pricing policies for the current services of the MTT. The Act specifically requires the Commission to take account of financial and economic matters in developing its recommendations and the Commission proposes to include community views on quality of service, social, environmental and economic factors in its reports to Government.

The Commission proposes to approach the Investigation by determining notional fares that would recover the economic costs of the MTT (including a commercial profit).

The Commission proposes to take account of 'best practice' operating costs and an optimised bus fleet to determine the aggregate revenue requirement of the MTT. After taking account of the impacts of distance and time on operating costs, the Commission proposes to develop a notional 'cost-reflective' schedule of fares. On present information, average notional fares would be substantially higher than the existing fares.

The Commission then proposes to estimate the deficit associated with service sectors and classes of patrons using these services. It is anticipated that certain non-commercial services could be candidates for classification as Community Service Obligations which would in the future be specifically funded by Government. The Draft Report will include the Commission's proposals for MTT fares based on assumptions of a range of CSO payments for non-commercial services. Submissions in response to the Draft Report will be taken into account before the Commission submits

its final report and recommendations in February 1997.

The Commission invites comments on its proposed approach to the Investigation.

Following the Investigation, the Government will determine the maximum fares that the MTT may charge for the following three years, and the MTT will be required to re-set its fares to conform with the Government's requirements.